

Basics of Economics

here come some vocabulary terms...

- ✦ **economics**: the study of how to best allocate scarce resources amongst unlimited wants
- ✦ **scarcity**: the imbalance between limited productive resources and unlimited human wants
- ✦ **factors of production**: inputs or resources that go into the production of goods and services – land, labor, capital, entrepreneurship... or human resources, natural resources, manufactured resources

- ✦ Scarcity leads to choice...
- ✦ which leads to opportunity cost.
- ✦ **opportunity cost**: the next best alternative foregone when an economic decision is made
- ✦ **economic good**: any good or service that has an opportunity cost
- ✦ **free goods**: any good or service that does not have an opportunity cost

The Basic Economic Problem

- ✦ What should be produced and in what quantities?
- ✦ How should things be produced?
- ✦ Who should things be produced for?

Who wants this?

- ✦ We need a “rationing system.” How can we decide who gets it?
- ✦ Suggestions?
- ✦ As a group, list the advantages and disadvantages of your assigned rationing system.
- ✦ Share your ideas.
- ✦ What are the criteria for a good rationing system? For a poor rationing system?

- ✦ So how should we decide who gets it?
- ✦ Let's vote. The winning rationing system will be used.

Rationing Systems

- ✦ ***planned economies*** (centrally planned economy or command economy): the government decides what to produce, how to produce, and who to produce for
- ✦ ***free market economies*** (private enterprise economy or capitalism): “everyone” decides what to produce, how to produce, and who to produce for through prices and supply and demand

Top Ten of 2010

Your search included the following criteria:

YEAR: 2010

Index of Economic Freedom World Rankings

WORLD RANK	COUNTRY	YEAR	OVERALL SCORE	CHANGE FROM PREVIOUS	BUSINESS FREEDOM	TRADE FREEDOM	FISCAL FREEDOM	GOVERNMENT SIZE	MONETARY FREEDOM	INVESTMENT FREEDOM	FINANCIAL FREEDOM	PROPERTY RIGHTS	FREEDOM FROM CORRUPTION	LABOR FREEDOM
1	Hong Kong	2010	89.7	-0.3	98.7	90	93	93.7	83.1	90	90	90	81	87.4
2	Singapore	2010	86.1	-1	98.2	90	90.7	95.3	80.9	75	50	90	92	98.9
3	Australia	2010	82.6	0	90.3	85.1	61.4	64.9	82.7	80	90	90	87	94.9
4	New Zealand	2010	82.1	0.1	99.9	86	63.6	51.3	83.1	80	80	95	93	88.8
5	Ireland	2010	81.3	-0.9	92.8	87.5	71.1	61.8	79	95	80	90	77	79
6	Switzerland	2010	81.1	1.7	81.2	90	68.2	68.9	81.3	80	80	90	90	81.8
7	Canada	2010	80.4	-0.1	96.5	88.1	76.7	54.1	75.4	75	80	90	87	81.5
8	United States	2010	78	-2.7	91.3	86.9	67.5	58	78.1	75	70	85	73	94.8
9	Denmark	2010	77.9	-1.7	97.9	87.5	35.9	22	79.3	90	90	90	93	93.7
10	Chile	2010	77.2	-1.1	64.8	88	77.5	89.6	73	80	70	85	69	75.4

All of them...

- ✦ In reality, all economies are mixed economies.
- ✦ transition economies: economies moving from a planned economy towards a free market economy